



STATE OF NEW YORK
OFFICE OF THE MEDICAID INSPECTOR GENERAL
800 North Pearl Street
Albany, New York 12204

ANDREW M. CUOMO
GOVERNOR

JAMES C. COX
MEDICAID INSPECTOR GENERAL

July 2, 2014

[REDACTED]
Mills Pond Nursing and Rehabilitation Center
273 Moriches Road
St. James, New York 11780

Re: St. James Plaza Nursing Facility
Medicaid Rate Audit #10-1035
NPI Number: [REDACTED]
Provider Number: [REDACTED]

Dear [REDACTED]

Enclosed is the final audit report of the Office of the Medicaid Inspector General's (the "OMIG") audit of St. James Plaza Nursing Facility's (the "Facility") Medicaid rates for the rate period January 1, 2005 through December 31, 2008. In accordance with 18 NYCRR Section 517.6, this audit report represents the OMIG's final determination on issues raised in the draft audit report.

In response to the draft audit report dated January 10, 2014, you identified specific audit findings with which you disagreed. Your comments have been considered (see Attachment A) and the report has been either revised accordingly to address your comments (see Attachment B). Consideration of your comments resulted in an overall reduction of \$5,201 to the total Medicaid overpayment shown in the draft audit report. As previously stated in the draft audit report, the Medicare Part B and D offsets were not within the scope of the review and may be examined as part of a future audit. The Medicaid overpayment associated with OMIG adjustments was \$365,534. However, this audit also processed Bureau of Long Term Care appeals that resulted in an amount due the Facility of \$64,866. Consequently, based on the enclosed audited rates calculated by the Bureau of Long Term Care Reimbursement, the Medicaid overpayment currently due is \$300,668. This overpayment is subject to Department of Health ("DOH") and Division of Budget ("DOB") final approval. While not anticipated, any difference between the calculated overpayment and the final DOH and DOB approved amount will be resolved with the Facility by the OMIG Bureau of Collections Management.

The overpayment does not reflect the impact on rates subsequent to December 31, 2008 that utilized the January 1, 1983 through December 31, 1983 base period for operating expense. Any overpayment resulting from operating expense disallowances in the January 1, 1983 through December 31, 1983 base period report for rates subsequent to December 31, 2008 will be addressed in the future.

In accordance with 18 NYCRR Part 518 which regulates the collection of overpayments, your repayment options are described below.

OPTION #1: Make full payment by check or money order within 20 days of the date of the final audit report. The check should be made payable to the New York State Department of Health and be sent with the attached Remittance Advice to:

[REDACTED]
New York State Department of Health
Medicaid Financial Management
GNARESP Corning Tower, Room 2739
File #10-1035
Albany, New York 12237-0048

OPTION #2: Enter into a repayment agreement with the Office of the Medicaid Inspector General. If your repayment terms exceed 90 days from the date of the final audit report, recoveries of amounts due are subject to interest charges at the prime rate plus 2%. If the process of establishing the repayment agreement exceeds 20 days from the date of the final audit report, the OMIG will impose a 50% withhold after 20 days until an agreement is established. OMIG acceptance of the repayment agreement is based on your repaying the Medicaid overpayment as agreed. The OMIG will adjust the rate of recovery, or require payment in full, if your unpaid balance is not being repaid as agreed. In addition, if you receive an adjustment in your favor while you owe funds to the State, such adjustment will be applied against any amount owed. If you wish to enter into a repayment agreement, please contact the Bureau of Collections Management within 20 days at the following:

Bureau of Collections Management
New York State Office of the Medicaid Inspector General
800 North Pearl Street
Albany, New York 12204
[REDACTED]

You have the right to challenge this action and determination by requesting an administrative hearing within sixty (60) days of the date of this notice. You may not request a hearing to raise issues related to rate setting or rate setting methodology. In addition, you may not raise any issue that was raised or could have been raised at a rate appeal with your rate setting agency. You may only request a hearing to challenge specific audit adjustments which you challenged in a response to the draft audit report.

If you wish to request a hearing, the request must be submitted in writing to:

General Counsel
Office of Counsel
New York State Office of the Medicaid Inspector General
800 North Pearl Street
Albany, New York 12204

Questions regarding the request for a hearing should be directed to the Office of Counsel at

If a hearing is held, you may have a person represent you or you may represent yourself. If you choose to be represented by someone other than an attorney, you must supply a signed authorization permitting that person to represent you along with your hearing request. At the hearing, you may call witnesses and present documentary evidence on your behalf.

Should you have any questions, please contact [REDACTED] or through email at [REDACTED]. Please refer to audit number 10-1035 in all correspondence.

Sincerely,

[REDACTED]
Bureau of Rate Audit
Division of Medicaid Audit
Office of the Medicaid Inspector General

Enclosures

- Attachment A - Facility Draft Report Comments and OMIG Response
- Attachment B - Summary of Changes from Draft Report to Final Report
- EXHIBIT I - Summary of Per Diem Impact and Medicaid Overpayment
- EXHIBIT II - Summary of Medicaid Rates Audited
- EXHIBIT III - Operating Expense Disallowances/(Allowances)
- EXHIBIT IV - Property Expense Disallowances/(Allowances)
- EXHIBIT V - Return On And Return Of Real Property Equity Disallowances/(Allowances)
- EXHIBIT VI - Return On Average Equity Disallowances/(Allowances)

CERTIFIED MAIL [REDACTED]
RETURN RECEIPT REQUESTED

**NEW YORK STATE
OFFICE OF THE MEDICAID INSPECTOR GENERAL
REMITTANCE ADVICE**

NAME & ADDRESS OF AUDITEE:

MILLS POND NSG. & REHAB. CTR.
273 MORICHES RD.
ST. JAMES, NEW YORK 11780

NPI [REDACTED]
PROVIDER [REDACTED]

AUDIT #10-1035

AMOUNT DUE: \$300,668

AUDIT
TYPE

[] PROVIDER
[X] RATE
[] PART B
[] OTHER:

CHECKLIST

1. To ensure proper credit, please enclose this form with your check.
2. Make checks payable to: *New York State Department of Health*
3. Record the Audit Number on your check.
4. Mail check to:

[REDACTED]
New York State Department of Health
Medicaid Financial Management
GNARESP Corning Tower, Room 2739
File #10-1035
Albany, New York 12237-0048

5. If the provider number shown above is incorrect, please enter the correct number below.

[REDACTED]
CORRECT PROVIDER NUMBER

**ST. JAMES PLAZA NURSING FACILITY- AUDIT #10-1035
FACILITY DRAFT AUDIT REPORT COMMENTS AND OMIG RESPONSE**

All OMIG adjustments were accepted by the Facility except for those shown below. The following details the disposition of final report adjustments after consideration of the Facility's draft audit report response comments. See Attachment B for adjustment changes included in the final audit report.

EXHIBIT IV COMMENTS

Adjustment #4 – Property Insurance Expense Adjustments

Facility Comment

Attached is the 2002 – 2003 property insurance information. On the 2003 workpaper, the premium was listed as \$12,527. This amount was the amount left to carryover for the NH % for the 2002-2003 policy. The real policy amount is \$31,318. Please review the attached documents so you can remove the \$7,830 disallowance on line 4.a).

OMIG Response

The Facility was able to provide work papers and invoices that supported its claim. Therefore, the OMIG disallowance was eliminated.

Disposition: The Facility's response was recognized; the draft report disallowance was removed as shown on Attachment B.

Adjustment #5 – Moveable Equipment Depreciation Expense Disallowance

Facility Comment

The costs being disallowed are not operating costs. They are capital costs in the nature of depreciation expense on a telephone system. From our reading of the Draft Audit Report, it appears that OMIG is proposing a disallowance based upon the fact that the operating component of the rate, based on 1983 operating expenses, included telephone expense. This suggests that to reimburse the Facility for the capital costs incurred since that time would represent a duplication of reimbursement. This is a totally unrealistic posture for the State to take. It is true that in 1983 the cost of operating minor telephone equipment was incorporated as a nominal charge on the monthly telephone bill that was recognized as an operating expense. The State is turning a blind eye, however, to the obvious advancements in technology in the intervening two decade period.

It is unrealistic, if not disingenuous, for the State to take the position that any facility in the modern age could operate without the necessity for incurring significant equipment costs and separate hardware costs incurred from a separate vendor, to operate a modern telecommunications system. Indeed, to do anything less would jeopardize patient care. There are prior examples where intervening advancements in technology make it important for the State to recognize additional capital costs incurred by a facility notwithstanding the technicality that in a prior base year there may have been some operating costs. This is not true duplicate reimbursement. See, for example, the decision, copy enclosed, rendered by Administrative Law Judge William J. Lynch, dated June 16, 2013 (*In the Matter of Saratoga County, Maplewood Manor*), which rejected a similar OMIG

disallowance based on a theory of duplicate reimbursement that ignored advancements in technology.

Furthermore, rates for the Facility in rate years 2007 and 2008 were so-called "transitional rates" in which operating costs in the 2002 base year were used as part of the calculation of the rates. Those operating costs did not include telephone costs, so it would be wrong to also ignore those costs on the capital side; as the "duplicate reimbursement" rationale does not apply.

OMIG Response

The Bureau of Long Term Care Reimbursement has determined the nature of telephone expense to be an operating expense. Since the expense is included in the formula to determine the base, mean and ceiling prices used to establish the indirect expense corridor, the reimbursement of telephone depreciation expense in the property component amounts to duplicate reimbursement.

Disposition: The draft report disallowance remains the same.

Adjustment #8 – Investment Income Offset

Facility Comment

The parcel of land sold had not been previously held in a separate "investment account" as stated in OMIG's Draft Audit Report, which cited 10 NYCRR 86 - 2.20 (c) (1) as the rationale for this adjustment. The intent behind the adoption of that regulation was to prevent a facility from realizing a gain on the sale of an asset when the State was reimbursing interest on debt associated with that asset. That was not the case here, however, as there was no longer a mortgage (and no associated interest) on their land which was being reimbursed based on a return on and of equity pursuant to 10 NYCRR 86 - 2.21. The land sold was part of the original parcel of land, the original cost of which was factored into the provider's historic cost of the land. Therefore the only appropriate adjustment was to reduce the provider's historic cost, on a "going forward basis" (which OMIG did), by removing from the historic cost the amount of historic cost assigned to the discrete parcel of property that was sold. Having appropriately made such adjustment, it was totally inappropriate to also treat gain on the sale of the same property as investment income. OMIG is attempting to offset the gain against interest incurred with respect to the financing of other renovations approved by the Department of Health having nothing to do with the parcel that was sold. That is "mixing apples and oranges." OMIG cannot have it both ways. I have been advised by my client to pursue all appropriate avenues of appeal in the event that this adjustment is not withdrawn. We would welcome, however, an opportunity to meet with you to discuss this matter further.

OMIG Response

10 NYCRR Section 86-2.20(c)(1) states that investment income shall be reduced by investment income with the exception of income from funded depreciation, qualified pension funds, trustee malpractice insurance funds, or in instances where income from gifts or grants is restricted by donors. Investment income shall be defined as the aggregate net amount realized from dividends, interest, rental income, interest earned on temporary investment of withholding taxes, as well as all gains and losses. The gain realized by St. James Plaza does not fall into the exception classifications as noted above. Consequently, the offset of the gain was appropriate.

Disposition: The draft report disallowance remains the same.

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035
SUMMARY OF CHANGES FROM DRAFT REPORT TO FINAL REPORT

	<u>Rate Period</u>	<u>Draft Disallowance (Allowance)</u>	<u>Change</u>	<u>Final Disallowance (Allowance)</u>
<u>EXHIBIT IV - PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)</u>				
4a. PROPERTY INSURANCE EXPENSE ADJUSTMENTS	2005	7,830	(7,830)	-
	2008	(16,998)	-	(16,998)
5a. MOVEABLE EQUIPMENT DEPRECIATION DISALLOWANCES	2007	10,862	-	10,862
	2008	10,862	-	10,862
8a. INVESTMENT INCOME OFFSET	2006	229,645	-	229,645

Note: The adjustments shown above only reflect those adjustments that the Facility responded to in their response to the draft report. All other adjustments remain the same as shown in the draft report.

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
SUMMARY OF PER DIEM IMPACT AND MEDICAID OVERPAYMENT

<u>RATE PERIOD</u>	<u>ISSUED PART B & D NON-ELIGIBLE RATES*</u>	<u>FINAL PART B & D NON-ELIGIBLE RATES</u>	<u>RATE DECREASE (INCREASE)</u>	<u>MEDICAID DAYS</u>	<u>MEDICAID OVERPAYMENT</u>
01/01/05 - 03/31/05	\$162.98	\$163.21	(\$0.23)	18,105	\$ (4,164)
04/01/05 - 06/30/05	161.66	161.89	(0.23)	18,440	(4,241)
07/01/05 - 09/30/05	162.02	162.25	(0.23)	18,823	(4,329)
10/01/05 - 12/31/05	160.23	160.46	(0.23)	18,947	(4,358)
01/01/06 - 03/31/06	168.31	165.47	2.84	18,538	52,648
04/01/06 - 06/30/06	175.43	172.59	2.84	17,883	50,788
07/01/06 - 09/30/06	176.52	173.69	2.83	18,526	52,429
10/01/06 - 12/31/06	168.76	165.92	2.84	18,844	53,517
01/01/07 - 03/31/07	181.46	180.80	0.66	17,964	11,856
04/01/07 - 06/30/07	185.71	185.05	0.66	17,835	11,771
07/01/07 - 08/31/07	184.66	184.00	0.66	12,009	7,926
09/01/07 - 09/30/07	184.66	184.00	0.66	5,731	3,782
10/01/07 - 12/31/07	184.22	183.55	0.67	18,266	12,238
01/01/08 - 03/31/08	189.19	188.35	0.84	17,929	15,060
04/01/08 - 06/30/08	186.48	185.65	0.83	17,832	14,801
07/01/08 - 09/30/08	189.84	189.01	0.83	19,061	15,821
10/01/08 - 12/31/08	185.70	184.86	0.84	18,003	15,123
TOTAL MEDICAID OVERPAYMENT					<u>\$ 300,668</u>

* Any differences between these rates and the rates listed in Exhibit II of this audit report represent rate changes made subsequent to OMIG's audit. These changes remain open to future audit by the OMIG. For the purpose of this Exhibit, the Medicare Part B and D rates are not shown. The rate decrease/(increase) for those rates is the same as shown for the Medicare Part B and D non-eligible rates above.

NOTE: The impact of processing the Bureau of Long Term Care Reimbursement open appeals is that the total Medicaid overpayment is reduced by **(\$64,866)** due the Facility.

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
SUMMARY OF MEDICAID RATES AUDITED

The Facility's Medicaid utilization was approximately 82 percent for the period under audit and the Medicaid per diem rates audited are shown below. Any differences between these rates and the "Issued Rates" listed in Exhibit I of this audit report represent rate changes made subsequent to our audit. These changes remain open to future audit by the OMIG.

<u>RATE PERIOD</u>	<u>ISSUED MEDICARE PART B & D NON-ELIGIBLE RATES *</u>
01/01/05 - 03/31/05	\$162.98
04/01/05 - 06/30/05	161.66
07/01/05 - 09/30/05	162.02
10/01/05 - 12/31/05	160.23
01/01/06 - 03/31/06	168.31
04/01/06 - 06/30/06	175.43
07/01/06 - 09/30/06	176.52
10/01/06 - 12/31/06	168.76
01/01/07 - 03/31/07	181.46
04/01/07 - 06/30/07	185.71
07/01/07 - 08/31/07	184.66
09/01/07 - 09/30/07	184.66
10/01/07 - 12/31/07	184.22
01/01/08 - 03/31/08	189.19
04/01/08 - 06/30/08	186.48
07/01/08 - 09/30/08	189.84
10/01/08 - 12/31/08	185.70

- * The Medicare Part B and D rates are not shown for the purpose of this Exhibit. The Medicare Part B and D offsets were not within the scope of this audit and may be examined as part of a future audit.

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	COST	RATE PERIODS		
		2005	2006	2007
DESCRIPTION	CTR.	\$	\$	\$
Property Expense Allowed per HE-12B		988,729	1,069,635	1,501,399
Less Disallowances/(Allowances):				1,522,188
Disallowances/(Allowances) Related to Processing of Bureau of Long Term Care (BLTCR) Open Appeals				
1. RETURN OF AND RETURN ON EQUITY ADJUSTMENTS				
A proprietary facility is entitled to return on and of equity for capital invested for the necessary and proper operation for patient care activities. The real property historical costs, mortgage amount, and accumulated real property reimbursement were adjusted to audited figures. Consequently, adjustments were necessary. (Refer to Exhibit V for details) By letter dated February 10, 2014 the Facility withdrew the following appeals filed with the Bureau of Long Term Care Reimbursement: #223155, #314251, #314252, and #323153.				
Regulation: 10 NYCRR Section 86-2.21				
2. RETURN ON AVERAGE EQUITY ADJUSTMENTS				
A proprietary facility is entitled to return on average equity for capital invested for the necessary and proper operation for patient care activities. The real property historical costs, mortgage amount, and accumulated real property reimbursement were adjusted to audited figures. Consequently, adjustments were necessary. (Refer to Exhibit VI for details) By letter dated February 10, 2014 the Facility withdrew the following appeals filed with the Bureau of Long Term Care Reimbursement: #223155, #314251, #314252, and #323153.				
Regulation: 10 NYCRR Section 86-2.21				
3. DIRECT ASSIGNMENT DISALLOWANCES				
A proprietary facility is entitled to return on average equity for capital invested for the necessary and proper operation for patient care activities. The real property historical costs, mortgage amount, and accumulated real property reimbursement were adjusted to audited figures. Consequently, adjustments were necessary. (Refer to Exhibit V for details). By letter dated February 10, 2014 the Facility withdrew the following appeals filed with the Bureau of Long Term Care Reimbursement: #223155, #314251, #314252, and #323153.				
Regulation: 10 NYCRR Section 86-2.21				
BLTCR Open Appeals Disallowances/(Allowances)				
Subtotal Property Expense		\$ (42,073)	\$ (32,368)	\$ (26,229)
		\$ 1,030,802	\$ 1,102,003	\$ 1,527,628
				\$ 23,334
				\$ 1,498,854

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	COST CTR.	RATE PERIODS			
		2005	2006	2007	2008
<u>Other OMIG Audit Disallowances/(Allowances)</u>					
4. PROPERTY INSURANCE EXPENSE ADJUSTMENTS					
a) Providers receiving payments on the basis of reimbursable costs are required to provide adequate cost data based on financial and statistical records that can be verified on audit. Cost data must be current, accurate, and in sufficient detail. Audited property insurance varied from the insurance expense allowed in the rate resulting in an allowance. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304	005				(16,998)
b) The Facility's rates included insurance premiums for business income/interruption and other general liability insurance. These types of insurance do not relate to the loss of or damage to the Facility's physical property and consequently are only includable in the operating component of the rate. Since these insurance premiums are not allowable as property insurance costs, they were disallowed. Regulations: 10 NYCRR Sections 86-2.10(g) & 86-2.17(a) & (d), PRM-1 Sections 2161 & 2806.2	005	8,740	8,068	6,460	5,794
5. MOVEABLE EQUIPMENT DEPRECIATION DISALLOWANCES					
a) The Bureau of Long Term Care Reimbursement has determined the nature of telephone expense to be an operating expense. Since the expense is included in the formula to determine the base, mean and ceiling prices used to establish the indirect expense corridor, the reimbursement of telephone depreciation expense in the property component amounts to duplicate reimbursement. Consequently, disallowances were necessary. Regulation: 10 NYCRR Section 86-2.17(d)	002			10,862	10,862
b) Building/ixed equipment depreciation relating to the sewage treatment plant was erroneously included within movable equipment depreciation. The Facility receives a return on equity for the sewage treatment plant. Consequently, an disallowance was necessary. Regulation: 10 NYCRR Section 86-2.22(a)	001			8,922	
6. RENTAL EXPENSE DISALLOWANCES					
a) Costs not related to patient care are costs that are not appropriate or necessary for patient care in developing and maintaining the operation of patient care facilities and activities. Only costs properly chargeable to necessary patient care are allowable. Costs pertaining to an automobile used for personal use by the owner are not related to patient care and were disallowed. Regulations: 10 NYCRR Sections 86-2.17(a) & (d), PRM-1 Section 2105.9	005	7,778	7,180	7,805	14,143

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	DESCRIPTION	COST CTR.	RATE PERIODS			
			2005	2006	2007	2008
6. RENTAL EXPENSE DISALLOWANCES (CONTD)						
b) Providers receiving payment on the basis of reimbursable costs must provide adequate cost data based on financial and statistical records that can be verified on audit. In addition, the cost data is required to be current, accurate, and in sufficient detail. The Facility was unable to provide documentation or demonstrate the relationship to patient care for reported equipment rental. Consequently, disallowances were necessary. Regulations: 10 NYCRR Section 86-2.17(a), PRM-1 Sections 2300 & 2304	ME Rent ME Rent	005 043	960 1,406			
7. WORKING CAPITAL INTEREST EXPENSE DISALLOWANCE						
Providers receiving payment on the basis of reimbursable costs are required to provide adequate cost data based on financial and statistical records that can be verified on audit. Furthermore, the cost information must be current, accurate, and in sufficient detail. The Facility was unable to adequately substantiate reported working capital interest expense. Consequently, a disallowance was necessary. Regulations: 10 NYCRR Section 86-2.17(a), Public Health Law, Section 2808, Paragraph 22(a), PRM-1 Sections 2300 & 2304	WCI Exp.	005		3,261		
8. INVESTMENT INCOME OFFSET						
a) The OMIG identified a gain from the sale of land in the Facility's investment accounts. Inv. Inc. Offset The gain was properly reported as non-operating revenue but was not offset against expense. An adjustment was made to offset investment income against mortgage interest expense. Regulation: 10 NYCRR Section 86-2.20(c)(1)	Inv. Inc. Offset	001		229,645		
b) Interest expense shall be reduced by investment income with exception of income earned by funded depreciation accounts and certain other restricted funds. Reported unrestricted investment income was not appropriately offset against interest expense in the promulgated rates. Consequently, the unrestricted investment income was offset against interest expense. Regulations: 10 NYCRR Sections 86-2.17(a) and 86-2.20(c), PRM-1 Section 202.2	Inv. Inc. Offset	001			684	
c) Related company investment income was not offset in the promulgated rates. An audit adjustment was necessary to offset this income. Regulations: 10 NYCRR Sections 86-2.20(c)(1) & 86-2.26	Inv. Inc. Offset	001	1,031	478	1,608	1,788

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
PROPERTY EXPENSE DISALLOWANCES/(ALLOWANCES)

	COST CTR.	DESCRIPTION	RATE PERIODS			
			2005	2006	2007	2008
9. MORTGAGE AMORTIZATION DISALLOWANCE						
The analysis of mortgage statements disclosed that the amount included in the rate by the BLTCR for mortgage amortization exceeded actual audited amounts. Mortgage amortization was corrected to reflect the proper amounts.						
Regulations: 10 NYCRR Section 86-2.21						
	001	Mtg. Amort.			12,303	
10. AUTO INSURANCE EXPENSE ADJUSTMENTS						
a) Costs not related to patient care are costs that are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Only costs property chargeable to necessary patient care are allowable. Auto insurance expense on vehicles that were used exclusively by Administrators was disallowed since this expense was not directly related to patient care.						
Regulations: NYCRR Section 86-2.17(a), PRM-1 Sections 2102.3 & 2105.9						
	006	Auto Ins.	2,773	2,595	2,134	
b) Providers receiving payments on the basis of reimbursable costs are required to provide adequate cost data based on financial and statistical records that can be verified on audit. Cost data must be current, accurate, and in sufficient detail. Audited insurance varied from the insurance expense allowed in the rate resulting in an allowance.						
Regulations: 10 NYCRR Section 86-2/17(a), PRM-1 Sections 2300 & 2304						
	006	Auto Ins.				(751)
11. RETURN OF AND RETURN ON EQUITY DISALLOWANCES						
A proprietary residential health care facility is entitled to a reasonable return of and return on equity capital for capital invested in land, plant, fixed equipment, and capital improvements associated with necessary and proper patient care activities. Land costs used for calculating the return of and return on equity were reduced to reflect a sale of land by the Facility. Consequently, disallowances were necessary. (Refer to Exhibit V)						
Regulation: 10 NYCRR Section 86-2.21						
	001	Return of Eq.		2,595	2,596	2,595
	001	Return on Eq.		982	954	
	003	Return on Eq.				790
12. RETURN ON AVERAGE EQUITY ALLOWANCES						
A proprietary residential health care facility is entitled to a reasonable return on average equity for equity associated with necessary and proper patient care activities. The net investment amount was overstated which resulted in the return on average equity being understated. Based on the audited average equity calculation, allowances were necessary. (Refer to Exhibit VI)						
Regulation: 10 NYCRR Section 86-2.28						
	001	Avg. Equity		(830)	(987)	(708)
	003	Avg. Equity				
Other OMIG Property Expense Disallowances/(Allowances)			\$ 22,688	\$ 253,974	\$ 53,341	\$ 17,515
TOTAL AUDITED PROPERTY EXPENSE			\$ 1,008,114	\$ 848,029	\$ 1,474,287	\$ 1,481,339

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035**RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008****RETURN ON AND RETURN OF REAL PROPERTY EQUITY DISALLOWANCES/(ALLOWANCES)**

	RATE PERIODS			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Return of Equity Calculation</u>				
Real Property Historical Cost per HE-12B	\$ 2,586,049	\$ 2,586,049	\$ 2,586,049	\$ 7,721,942
Audit Disallowances/(Allowances)	<u>(5,128,066)</u>	<u>(5,024,248)</u>	<u>(5,024,248)</u>	<u>103,818</u>
Audited Historical Cost	\$ 7,714,115	\$ 7,610,297	\$ 7,610,297	\$ 7,618,124
Less: Accumulated Reimbursement	<u>5,878,658</u>	<u>5,981,745</u>	<u>6,162,695</u>	<u>6,343,645</u>
Audited Net Equity	\$ 1,835,457	\$ 1,628,552	\$ 1,447,602	\$ 1,274,479
Remaining Useful Life	<u>10</u>	<u>9</u>	<u>8</u>	<u>7</u>
Audited Return of Equity	\$ 183,546	\$ 180,950	\$ 180,950	\$ 182,068
Promulgated Return of Equity	<u>130,794</u>	<u>130,793</u>	<u>130,794</u>	<u>207,277</u>
Disallowance/(Allowance)	<u>\$ (52,752)</u>	<u>\$ (50,157)</u>	<u>\$ (50,156)</u>	<u>\$ 25,209</u>
<u>Return on Equity Calculation</u>				
Audited Net Equity	\$ 1,835,457	\$ 1,628,552	\$ 1,447,602	\$ 1,274,479
Less: ½ Current Return of Equity	<u>91,773</u>	<u>90,475</u>	<u>90,475</u>	<u>91,034</u>
Audited Net Investment	\$ 1,743,684	\$ 1,538,077	\$ 1,357,127	\$ 1,183,445
Rate of Return	<u>4.95%</u>	<u>4.45%</u>	<u>4.90%</u>	<u>4.68%</u>
Audited Return on Equity	\$ 86,312	\$ 68,444	\$ 66,499	\$ 55,385
Promulgated Return on Equity	<u>61,506</u>	<u>49,473</u>	<u>48,067</u>	<u>63,054</u>
Disallowance/(Allowance)	<u>\$ (24,806)</u>	<u>\$ (18,971)</u>	<u>\$ (18,432)</u>	<u>\$ 7,669</u>

ST. JAMES PLAZA NURSING FACILITY - AUDIT #10-1035
RATE PERIODS JANUARY 1, 2005 THROUGH DECEMBER 31, 2008
RETURN ON AVERAGE EQUITY DISALLOWANCES/(ALLOWANCES)

<u>Return on Average Equity</u>	<u>RATE PERIODS</u>			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Average Equity per HE-12B	\$ 3,548,852	\$ 3,329,215	\$ 2,398,669	\$ 2,023,799
Audit Disallowances:				
Due To Parent/Affiliate	1,231,345	1,020,505	529,513	67,261
Due From Parent/Affiliate	1,196,397	1,000,174	464,199	147,777
Eliminate Duplicate Related Party Adjustments	-	-	-	5,962
Audited Average Equity	\$ 3,583,800	\$ 3,349,546	\$ 2,463,983	\$ 1,937,321
Less: Audited Net Investment	1,743,684	1,538,077	1,357,127	1,183,445
Audited Remaining Equity	\$ 1,840,116	\$ 1,811,469	\$ 1,106,856	\$ 753,876
Rate of Return	1.87%	3.76%	5.07%	4.19%
Return on Average Equity Per Audit	\$ 34,410	\$ 68,111	\$ 56,118	\$ 31,587
Return on Average Equity Per HE-12B	43,782	84,141	75,190	24,721
Disallowance/(Allowance)	\$ 9,372	\$ 16,030	\$ 19,072	\$ (6,866)